

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSAL TEN)

Docket No. RM2015-19

REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE
REGARDING PROPOSAL TEN
(October 5, 2015)

Order No. 2704 (September 14, 2015) reset the dates for initial and reply comments on Proposal Ten to September 25 and October 5, 2015. The only initial comments submitted were those of the Public Representative and of the National Association of Postmasters of the United States (NAPUS), both filed on September 25. The Postal Service hereby replies to both sets of comments.

In his Comments, the Public Representative supports combining Cost Segments 3 and 4, but opposes combining the IOCS data for the CAG H/J and K/L sampling strata, expressing concern that doing so will adversely affect data quality. PR Comments at 4-7. The Postal Service agrees with the Public Representative that the growth of CAG K costs creates both the opportunity and the incentive to improve the IOCS finance number sample for CAGs H-L. However, as the Postal Service explains below, the Public Representative's concerns that pooling the IOCS CAG strata would harm data quality are misplaced. Moreover, as a practical matter, the Public Representative's proposal would adversely affect data quality, at least in the near term, by increasing the influence of the very limited IOCS CAG K sample data on the costs for FY2015 and FY2016.

The Public Representative expresses concern that offices in CAGs H-L have “unique characteristics that would be lost in the aggregation, and difficult to reconstruct for individual analysis.” PR Comments at 5. He also suggests that combining the IOCS data will “foreclose an opportunity to take advantage of new sampling opportunities [now] available.” *Id.* As a technical matter, the Public Representative is incorrect to assert that the CAG K data would be lost in the aggregation, since tallies include the finance number where the observations were taken, allowing them to be associated with the detailed CAG if necessary. Thus, the ability to obtain a sample-based estimate of CAG K costs will be retained whether or not CAG K remains a sampling stratum unto itself.¹

Likewise, the Public Representative incorrectly concludes that pooling the CAG H-L strata meaningfully forecloses any opportunity to improve the CAG K sample data. Under the Postal Service’s pooling proposal, a refresh of the IOCS first stage (finance number) sample for CAGs H-L would considerably increase the effective CAG K finance number sample size from the current size of 4 offices.² This would occur because all offices in the pooled CAG H-L strata would be sampled at the same rate, while the proportion of CAG K-L offices within the larger CAG H-L universe has increased markedly.

Indeed, the effective CAG K-L sample sizes under pooling could be somewhat larger than would result if CAGs K-L were retained as a separate IOCS stratum, since

¹ Relatedly, it should be recognized that summing expenses by CAG from the Trial Balance is not a method that analysts would “need to rely on” as a substitute for IOCS data (PR Comments at 4), but rather is how IOCS obtains control totals for the costs in each CAG in the first place.

² See Docket No. ACR2014, USPS-FY14-37, USPS-FY14-37.pdf at 4.

maintaining high precision estimates for individual CAGs with relatively small costs is not necessary to produce current levels of relative precision for national product cost estimates.³ The Postal Service expects that overall data quality will not be adversely affected by pooling CAGs H-L, and that the subset of CAG K-L data specifically will improve considerably when a refreshed sample with a larger CAG K-L sample size can be implemented.

The Postal Service agrees that the average cost differs by CAG (PR Comments at 5),⁴ but in focusing on this metric, the Public Representative fails to appropriately consider more significant limitations of the existing CAG K sample data to represent the larger pool of costs currently in Cost Segment 4. As noted above, the FY14 IOCS panel for CAG K includes 4 offices, reflecting what was a much smaller universe of CAG K offices prior to the recent expansion of the number of offices with clerk labor. And, as noted in the response to ChIR No. 2, question 3b, IOCS sampling of those offices in FY14 resulted in a very small sample of direct tallies—to the point that some products have zero measured costs in some years due to sampling variability.

Data from any refreshed sample of small post offices will not be available

³ Nor is it necessarily the case that a hypothetical “efficient office stratification” would follow CAG boundaries.

⁴ The Postal Service was unable to verify the numbers in Table 1 of the Public Representative’s comments, and due a lack of detailed references to the source data, it is unclear whether the average cost in question is per office or per tally. Neither the multistage IOCS sample design nor the Cost Segment 3 models assume that all offices within a CAG stratum are the same size, or that each tally represents the same amount of cost. Differences in cost per tally or per office also need not imply differences in distributions of costs by product, as shown in the Postal Service’s response to ChIR No. 1, question 3. In any event, since CAG is based on revenue rather than cost, CAG is an imperfect correlate of labor cost. Generally, CAGs (including but not limited to CAGs H-L) have considerable overlap in office size as measured by the quantity of clerk labor they employ, as the means and standard deviations reported in the Public Representative’s Table 1 would imply.

immediately. IOCS data for FY2015 have already been collected from the existing CAG K panel as of the date of these comments, and FY2016 is now underway. As a practical matter, a refreshed IOCS finance number sample cannot be implemented until the start of FY2017 at the earliest. Thus, under the Public Representative's proposal, FY2015 and FY2016 costs would need to use the small samples of data from the current CAG K office panel to represent considerably larger pools of cost. As the Postal Service explained in response to ChIR No. 2, question 1, pooling the data instead (as Proposal Ten would do) should result in more robust cost estimates.

The most relevant criterion for evaluating the effects of pooling is the distribution of costs by product. As the Postal Service showed in response to ChIR No. 1, question 3, the distributions of product costs between CAGs H-J and CAG K largely have not been significantly different, and the observed differences have been driven by the variability of CAG K data. Thus, the Postal Service expects that neither its proposal to pool CAGs H-L, nor the Public Representative's alternative proposal to keep CAGs K-L separate, would be likely to bias cost estimates. However, the Public Representative's proposal would greatly increase the dollar weights applied to CAG K tallies — since the larger pools of CAG K costs would be spread over the comparably small CAG K tally sets — and would thus amplify the already high sampling variability of the small IOCS CAG K sample.

NAPUS is primarily concerned that the proposal could “unintentionally impede” an analysis of CAG K-L costs. NAPUS Comments at 1. Those comments also suggest that “extracting data may be difficult” for “smaller and rural offices.” As the Postal Service noted in response to ChiR No. 1, Question 2b, and as the Public

Representative's comments recognize, it will still be possible obtain clerk costs for offices in CAGs K and L under the Postal Service's proposal. The total costs will continue to be available from accounting systems, and are not affected by changes in how those costs are attributed to mail products. Further, the CAG K-L stratum alone is not synonymous with smaller and rural post offices⁵, and it is not synonymous with POSTPlan offices. Analyses for any of these groupings of offices will include some offices from CAGs H, J, K and L.

The concerns raised by the Public Representative and NAPUS provide no sufficient basis to alter the proposal submitted by the Postal Service. Therefore, despite the reservations of those commenters, the Postal Service respectfully urges the Commission to approve Proposal Ten. A decision on the methodology would be required by the end of October in order to meet the deadlines for production of the FY2015 ACR.

Respectfully submitted,

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⁵ IOCS has not included CAG L in its panel since in the past there were no clerks working at CAG L offices.